

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AID-05 CEA-01 CIAE-00  
COME-00 EB-07 EA-07 FRB-03 INR-07 IO-13 NEA-10  
NSAE-00 USIA-06 OPIC-03 SP-02 TRSE-00 LAB-04  
EPG-02 SIL-01 AGRE-00 OMB-01 STR-04 /089 W  
-----040298 221852Z /43

P R 221627Z JUL 77  
FM AMEMBASSY MADRID  
TO SECSTATE WASHDC PRIORITY 1131  
INFO AMEMBASSY LISBON  
AMEMBASSY PARIS

C O N F I D E N T I A L MADRID 5543

USOECD

E.O. 11652: GDS  
TAGS: ECON, PINT, EFIN, ENRG, SP  
SUBJECT: GOVERNMENT TO PROCEED WITH ECONOMIC MEASURES DESPITE  
OPPOSITION

REF: MADRID 5489 AND 5531

1. IT IS VIRTUALLY CERTAIN THAT COUNCIL OF MINISTERS'  
MEETING NOW SCHEDULED FOR JULY 23 WILL APPROVE A SERIES  
OF SPECIFIC MEASURES TO FLESH OUT GOVERNMENT'S DEVELOP-  
ING ECONOMIC PROGRAM. FINANCE MINISTER FERNANDEZ ORDONEZ  
INFORMED ME LAST NIGHT THAT CONTRARY TO PRESS SPECULATION  
THE GOVERNMENT IS NOT DIVIDED ON THE CONTENTS OF ITS  
ECONOMIC PROGRAM. MORE CONSERVATIVE SPANISH BANKERS  
AND BUSINESSMEN HAVE EXPRESSED THEIR OPPOSITION TO  
TAX REFORM, RAISING INTEREST RATES, AND RELAXING BANK  
SECREC Y, BUT GOVERNMENT PLANS TO PROCEED WITH ANNOUNCE-  
MENT OF THESE AND OTHER MEASURES AS PART OF PROGRAM.  
HE SAID THAT CANCELLATION OF COUNCIL OF MINISTERS'  
MEETING ORIGINALLY SCHEDULED FOR JULY 20 WAS TO ALLOW  
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TIME FOR CONSULTATIONS WITH OPPOSITION FORCES WHICH  
ARE NOW UNDERWAY. FERNANDEZ ORDONEZ SPECIFICALLY MENTIONED  
HE HAD DISCUSSED PROGRAM WITH WORKERS'S COMMISSION SECRETARY  
GENERAL COMACHO ON JULY 20. IN ADDITION, SOCIALIST UGT HAS  
INFORMED US THEY ARE MEETING TONIGHT WITH LABOR MINISTER  
JIMENEZ DE PARGA AND OTHER MEMBERS OF GOS ECONOMIC TEAM TO  
DISCUSS MEASURES.

2. ALTHOUGH DISCUSSIONS NOW TAKING PLACE MAY RESULT IN MODIFICATION OF SPECIFIC MEASURES, IT IS EXPECTED THEY WILL INCLUDE A STEEP INCREASE IN ENERGY PRICES (GASOLINE, FUEL OIL, GAS AND ELECTRICITY), LIBERALIZATION OF INTEREST RATES ON LOANS OF OVER ONE YEAR, ANNOUNCEMENT OF A TIGHTER MONETARY POLICY, AND PRESENTATION OF A DRAFT LAW INCREASING TAXES AND TIGHTENING UP ON INSPECTIONS. THE DRAFT TAX LAW REPORTEDLY WILL INCLUDE AN INCREASE IN THE LUXURY TAX, TEMPORARY SURTAXES ON HIGH SALARIES AND THE GLOBAL TAX ASSESSMENT FOR PROFESSIONAL PEOPLE AND COMPANY BOARD MEMBERS, AND ESTABLISHMENT OF A NEW WEALTH TAX OF ONE-HALF PERCENT ON ASSESSED WEALTH EXCEEDING ABOUT \$50,000. THE DRAFT LAW MAY ALSO INCLUDE MODIFICATION OF THE BANKING SECRECY LAW TO PERMIT CONTROLLED GOVERNMENT INSPECTION OF ACCOUNTS, AND ESTABLISHMENT OF POSSIBLE JAIL SENTENCES FOR BUSINESS TAX FRAUD.

3. SPANISH BUSINESSMEN ARE NATURALLY CONCERNED ABOUT HOW THEY WILL BE AFFECTED BY TOUGHER PRICE CONTROLS AND MONETARY RESTRICTION WHEN THEY SEE NO ASSURANCE THAT WAGE DEMANDS WILL BE MODERATED. THEY ARE ALSO UPSET BECAUSE THEY WERE NOT, AS IN THE PAST, ASKED TO PLAY A ROLE IN DRAWING UP THE ECONOMIC PROGRAM, AND AS INDIVIDUALS THEY MAY BE FORCED TO PAY HIGHER TAXES. HOWEVER, THUS FAR THERE IS NO UNIFORM BUSINESS RESPONSE TO SPECIFIC MEASURES THE GOVERNMENT IS EXPECTED TO ANNOUNCE. SOME OF THE LARGEST BANKS FAVOR MOST PARTS OF THE GOVERNMENT'S PROGRAM, INCLUDING LIBERALIZATION  
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OF INTEREST RATES AND RESTRICTIVE MEASURES TO CUBR INFLATION. OTHER MORE CONSERVATIVE BANKERS AND WEALTHY INDIVIDUALS ARE SUSPICIOUS AND FEARFUL OF ANY CHANGE, AND ARE LOBBYING WITH THE GOVERNMENT TO ABANDON PLANS FOR RELAXING BANK SECRECY, RAISING INTEREST RATES AND WHAT THEY SEE AS EVENTUALLY SWEEPING TAX REFORM. WHILE THEY WILL UNDOUBTEDLY SUCCEED IN ACHIEVING SOME MODIFICATIONS IN SPECIFIC MEASURES (FOR EXAMPLE THERE ARE APPARENTLY NO IMMEDIATE PLANS FOR NEW BUSINESS TAXES), THERE IS LITTLE THEY CAN DO TO PREVENT THE GOVERNMENT FROM PROCEEDING WITH AN ECONOMIC PROGRAM. STABLER

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Disposition Approved on Date:**  
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**Disposition Date:** 22 May 2009  
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**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
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**Subject:** GOVERNMENT TO PROCEED WITH ECONOMIC MEASURES DESPITE OPPOSITION  
**TAGS:** ECON, PINT, EFIN, ENRG, SP, (ORDONEZ, FERNANDEZ), (DE PARGA, JIMENEZ)  
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**Type:** TE  
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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009